No. 15,111

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

DICK E. STEARNS and THE D. E. STEARNS COMPANY, a partnership composed of Dick E. Stearns and Ellen Belson Stearns,

Appellants-Appellees,

v.

TINKER & RASOR, a corporation, JOHN P. RASOR and LEO H. TINKER,

Appellants-Appellees

Brief of Dick E. Stearns and The D. E. Stearns Company Answering the Opening Brief of Tinker and Rasor, et al., in Support of Their Appeal

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SUBJECT INDEX

TABLE OF CASES

TABLE OF STATUTES AND RULES

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Introduction

The pleadings, history and status of this case have been amply stated in the opening briefs of the Plaintiffs and Defendants in support of their respective appeals. At the outset, however, it is pointed out that if Plaintiffs' appeal is successful it will be dispositive of both appeals, and this appeal of Defendants must fail. This is true because De-

fendants' counterclaim, the dismissal of which is urged as error by Defendants on their appeal, is dependent upon Plaintiffs having misused the Stearns patent, which is vigorously attacked by Plaintiffs in their appeal. As to Defendants' claim that Judge Westover erred in following the mandate and awarding Plaintiffs the costs of their first and successful appeal, this ground of appeal, of course, could not prevail if this Court finds Plaintiffs have not misused the Stearns patent, for its infringement by at least four holiday detectors of the individual Defendants is admitted and established by the lower Court's findings.

The Issues

Plaintiffs, in their brief in support of their appeal, fully treat the issue of the alleged misuse of the Stearns patent. Therefore, this brief is restricted to the issues.

(1) Did the lower Court err in dismissing the counterclaim on the ground that Defendants had not proven damage to their business or property as the proximate result of what the Court held to be misuse by Plaintiffs of the Stearns patent?

(2) Did the lower Court err in following the mandate of this Court on the first appeal and awarding costs to Plaintiffs in the amount awarded by the mandate to Plaintiffs?

Statement of the Case

For the purpose of this brief, it will be assumed that the lower Court did not err in finding misuse of the Stearns patent by Plaintiffs. Of course, such misuse is denied and is one of the basic issues of Plaintiffs' separate appeal.

The lower Court, pursuant to the mandate on the first appeal, conducted proceedings in the nature of an oral argument and thereafter announced its ruling holding against Plaintiffs, dismissing their complaint for patent infringement. The Court requested that findings of fact and conclusions of law be submitted by Defendants' counsel, which were presented along with a judgment dismissing the complaint, allowing the counterclaim, and ordering an accounting to determine the quantum of Defendants' damage and awarding all costs including those of the first appeal to Defendants. These were signed and entered by the Court, and thereafter Plaintiffs moved to modify and amend the judgment, findings of fact, and conclusions of law to accomplish the following, which was ordered by the Court: (Order, R932)

(1) To delete finding of fact 56, which found that Defendants' business had been damaged (finding of fact 56, R928).

(2) That the conclusion of law IX be deleted.

(3) To delete paragraph II of the judgment (sustaining the counterclaim and ordering an accounting), and to substitute:

> "that the counterclaim for damages presented with the answer to the second amended complaint herein be and is hereby dismissed upon the merits."

(4) That the judgment be further amended and modified by adding to paragraph IV the following:

> "that cost be awarded to the Plaintiffs in the sum of ————————— for the first appeal as per the Court of Appeals' mandate."

(5) That paragraph III of the judgment be amended to read:

> "that cost in the lower court be awarded the Defendants in the sum of _______________."

The final judgment from which Defendants' appeal as to paragraphs II and IV was entered February 9, 1956 (R933-935).

The basis for the Court's dismissal of the counterclaim was that Defendants had proven no damage to their business, which is one of the statutory prerequisites for a suit by a private party for treble damages based on the antitrust laws. Section 4 of the Clayton Act, 15 *U.S.C.A.* 15, provides that "any person * * * injured in his business or property by reason of anything forbidden in the antitrust laws may sue" therefor and recover damages. The trial court, when Plaintiffs' motion to modify the judgment, etc., called this to its attention, realized that Defendants had not offered any evidence proving damage to their "business or property" and therefore sustained Plaintiffs' motion (Order, R932).

As to the awarding of costs for the first appeal to Plaintiffs, the lower Court very properly followed this Court's mandate and allowed Plaintiffs the cost of their first appeal in the amount of the award in the mandate.

Defendants' evidence shows that they entered the holiday detector business several years subsequent to Plaintiffs and had developed a number of differently designated models of detectors and have offered for sale parts for use with their various models. For each model of their detector, they have a separate parts list, and the corresponding parts of their different models are sufficiently different that they

are differently numbered on the various lists (Def.'s physical Exhibits W and Y).

The sole evidence of possible damage to Defendants' business is Mr. Rasor's testimony that they "*could supply*" the battery, an electrode, "possibly a ground wire", and a pusher wand for the Stearns machine and that he was "*not aware of*" any parts' sales for Stearns detectors. There is no evidence that they ever even offered or intended to offer to sell these parts for Plaintiffs' detectors; were prepared to do so prior to the filing of this suit; or the probability that there would have been a market in San Gabriel, California, for parts for detectors leased from Shreveport, Louisiana, except for Plaintiffs' alleged violation of the antitrust laws.

The pleadings show that Plaintiffs' office and place of business is in Shreveport, Louisiana, while Defendants' is in San Gabriel, California. The evidence shows Plaintiffs' products are distributed for use throughout the Mid-Continent area, the Gulf Coast area, and the East. Plaintiffs introduced in evidence a customer list (Plaintiffs' physical Exhibit 38), and Mr. Belson testified that, as Plaintiffs' general manager, he had the customer list prepared and that of the 252 customers listed the only customers on the West Coast were:

(1) Pacific Pipeline and Engineers, Ltd.

(2) Pacific Lighting Corporation.

(3) Southern California Gas Company.

(4) Southern Counties Gas Company.

Mr. Belson also testified that the year 1949 was the last year in which one of the Stearns detectors was leased for use on the West Coast. Mr. Rasor testified that Defendants

commenced their business in 1948 and the corporate Defendant was organized on October 6, 1948 (Rasor, R. 403). It is completely illogical that Defendants, operating from Southern California, would sell parts for detectors of Plaintiffs, operating in distant sections of the United States, in absence of clear, cogent, and convincing proof to the contrary.

There is no evidence that Defendants ever intended to go into a parts business for Plaintiffs' holiday detectors, or ever solicited orders or advertised for orders for parts for Plaintiffs' holiday detectors. The locale of operation of Plaintiffs and Defendants is far removed.

Summary of Argument

A. Dismissal of Defendants' counterclaim for damages because Defendants proved no damage to their business or property as a proximate result of Plaintiffs' acts allegedly in violation of the antitrust laws.

Assuming that Plaintiffs' policy of leasing only whole holiday detectors is a tie-in of the materials which go into the holiday detectors that are not enumerated in the patent claims, with the parts that are specifically enumerated in the patent claims, so as to constitute an illegal tie-in in restraint of trade, which is violative of the antitrust laws, nevertheless Defendants have not assumed their burden of proof of the *fact* that their business or property has been damaged by such business practices of Plaintiffs and have indeed offered no proof that any such damage was ever sustained. Under the authorities and statutory provision upon which Defendants' counterclaim is based, such lack of proof of the fact of damage is full support for the Dis-

trict Court's action in dismissing Defendants' counterclaim.

B. The award of cost to Plaintiffs for their successful first appeal followed this Court's mandate and was not error.

The lower Court had no alternative but to follow the mandate of this Court and award the Plaintiffs costs in the amount of the award of the mandate. Such action by the Court was proper and not in error.

Argument

A. Dismissal of Defendants' counterclaim for damages because Defendants proved no damage to their business or property as a proximate result of Plaintiffs' acts allegedly in violation of the antitrust laws.

Section 4 of the Clayton Act, 15 *U. S. C. A.* 15 is a statutory provision for treble damage suits to be brought by a party who has been damaged "in his business or property" by the violation of the antitrust laws. This section reads in part as follows:

> "Any person *who shall be injured in his business or property* by reason of anything forbidden in the Anti-Trust Law may sue therefor * * *."

The courts have uniformly held that it is incumbent upon the alleged injured party to prove damage to his business or property as a proximate result of the acts found to violate the antitrust laws in order to sustain an action based on this Section. This may be stated that it is necessary to

prove the fact of damage. Indeed, Defendants' brief admits this to be the law, and the cases cited by Defendants are all to this effect. Defendants' brief, however, assumes that the fact of damage is proved and then discusses the quantum. The dispute here is whether the fact of damage has been proved, and this Court need go no further.

In dismissing the counterclaim for Defendants' failure to prove damage to their business or property, as distinguished from the damage to the public generally, the trial Court followed this well established rule of law.

> *Twentieth Century-Fox Film Corp. v. Brookside Theater Corp.*, 194 F. 2d 846, 855;
> *Suckow Borax Mines Consolidated, Inc., et al. v. Borax Consolidated, Ltd., et al.*, 185 F. 2d 196;
> *Triangle Conduit and Cable Co. v. National Electric Products Corporation*, 152 F. 2d 398 (C.A. 3, 1945).
> *American Banana Company v. United Fruit Company*, 166 F. 261 (C.A. 2, 1908);
> *Bigelow v. R. K. O. Radio Pictures*, 327 U.S. 251, 90 L. Ed. 652.

The issue here involved is one purely of fact, and the trial Court's determination that Defendants had not proven the fact of injury to their business or property and the dismissal of the counterclaim should not be reversed in the absence of clear error. *Graver v. Linde*, 339 U.S. 605, 611, 94 L. Ed. 1097, 1104.

Defendants' contention is that they have proven injury by Rasor's testimony that they sell parts for use on their own holiday detectors and that their battery, electrode, "possibly a ground wire", and pusher wand *could be* used with the Stearns detector, but that he was "not aware" that they had sold parts for Plaintiffs' detectors.

The testimony Defendants urge shows the fact of damages is so patently short of proof of damage to Defendants' business as a proximate result of Plaintiffs' alleged antitrust violation that it is reproduced below in its entirety. (Defendants' brief, page 10, first full paragraph). (R. 438-441).

"Q. Mr. Rasor, does the defendant Tinker and Rasor sell any parts of holiday detectors?
A. Tinker and Rasor sells any and all of their parts for holiday detectors.
Q. Does the sale of parts constitute a substantial part of the business of Tinker and Rasor?

* * *

A. (The Witness) It constitutes a sizeable portion.
Q. (By Mr. Gregg) Percentagewise, could you state about how much of your business is accounted for by the sale of parts as distinguished from complete detectors?
A. As I recall, looking at the figures for 1951's business, I believe we sold — or taking again the total gross of our 1951 sales, I recall that approximately 10 or 12 or 15 per cent, in that order, were for parts.
Q. And the balance being complete detectors.
A. And the balance being complete detectors.
Q. Have you recently consulted your records to verify this, Mr. Rasor?
A. I have done so.
Q. Have you ever sold any parts for use in conjunction with D. E. Stearns holiday detectors?
A. Not that I am aware of.

* * *

Q. Can you give me any reason, as far as you know, that you have never sold any parts for D. E. Stearns holiday detectors?

A. Well, I would assume that somebody using a D. E. Stearns holiday detector would be renting it and they certainly would not buy any parts from us for something they don't own.

Mr. Browning: I move to strike the witness' answer.

The Court: It may go out, on the ground that it is an assumption.

Q. (By Mr. Gregg) What parts could you supply for a D. E. Stearns Company detector?

A. Well, a pusher could be attached to the high voltage lead coming out of a detector or an electrical connection made with it and it could be used in the same fashion as our Model C-3 holiday.

Q. In other words, would you use a platform or carriage containing electrical apparatus, dispense with the bracket type of pusher and use the wand type of pusher of the defendant Tinker & Rasor such as shown, I believe it is Plaintiffs' Exhibit 26-A?

A. The Witness: That is correct."

(Repeated questions and exchanges between Court and counsel omitted to give continuity of actual testimony).

From the above testimony, the following facts are ascertained and these only:

1. Defendants have only sold their parts for their detectors.

2. Rasor, for some unaccounted-for reason, is not "aware" of the corporation's having sold parts for Plaintiffs' holiday detectors.

3. Defendants' "could supply a battery, an electrode, possibly a ground wire, a pusher."

This testimony fails to show:

1. Defendants have been prepared to sell parts for Plaintiffs' holiday detectors.

2. Defendants intended to sell parts for Plaintiffs' detectors.

3. Defendants ever made any effort to sell parts for Plaintiffs' detectors.

4. Positive proof whether Defendants did or did not actually sell parts for Plaintiffs' detectors.

5. Any proximate relationship between Plaintiffs' alleged violations of the antitrust laws and Defendants' failure to sell parts for Plaintiffs' detector, *if* they had not.

6. Any probability that customers of Stearns' place of business in Shreveport, Louisiana, would go to San Gabriel, California, to Defendants' place of business for parts for machines obtained from Plaintiffs.

The Court in *Triangle Conduit and Cable Co. v. National Electric Products Corporation,* 152 F. 2d 398 (C.A. 3, 1945), supra, considered a very similar situation and granted a summary judgment against the alleged injured party. In that case the Plaintiff, because of Defendant's actions in violation of the antitrust laws, had been forced to buy a machine for fabricating fiber bushings for use in spiral conduits for electrical cable. Plaintiff's only claim for damage was upon the contention "that it has been excluded from the 'potential market' for its bushing. That market is represented by the defendant's licensees who, because of their agreements with the defendant, were prevented from acquiring bushings from anyone other than the defendant."

The Court, in affirming the summary judgment for the Defendant, stated:

> "The foundation of the action as it stands is Section 4 of the Clayton Act, 15 U.S.C.A. 15. That section provides that where any person is injured in his business or property by reason of anything forbidden in the anti-trust laws he may sue and recover treble damages. Under it, our concern is with the question of the alleged exclusion of plaintiff from selling its bushings in the so-called 'potential market.' As to this, the amended complaint and the depositions are barren of any indication of even intention on the part of the plaintiff to manufacture bushings for said market. * * * It is obvious from their testimony that plaintiff never suggested or attempted entering into the business of selling its bushings to outsiders. * * * There is nothing to indicate that the plaintiff made any preparatory step whatsoever towards going into a general bushing manufacturing business. The section of the anti-trust laws above referred to has the limited purpose of affording compensation to those who have at least the intention and preparedness of engaging in a designated business and who are actually injured in their business or property by an unlawful act. The situation of such plaintiff must be different from that of the general public."

In the cases cited by Defendants, there was substantial evidence to show the fact of damage to a business or property as the result of acts violative of the antitrust laws. It is this fact of damage, as a result of Plaintiffs' antitrust violations, that Defendants have not proved and which precludes them from recovering. The fact of damage cannot be speculative or conjectural. In *Twentieth Century-Fox Film Corp. v. Brookside Theater Corp.*, 194 F. 2d 846, 955, supra, it is stated:

"The measure of such damages is the pecuniary loss to plaintiff's business or property resulting proximately from the conspiracy or combination. They must be actual damages and not speculative or conjectural. The uncertainty, however, which precludes the recovery of particular damages is uncertainty as to whether they are the result of the tortious acts of defendants * * *. *Bigelow v. R. K. O. Radio Pictures*, 327 U.S. 251 * * * *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359 * * *."

B. The award of cost to Plaintiffs for their successful first appeal followed this Court's mandate and was not error.

The costs under dispute are those provided for in the mandate of this Court where the judgment of invalidity of the Stearns patent as lacking invention was reversed upon Plaintiffs' first appeal. (Mandate, R. 913) The award of costs in the mandate was pursuant to Rule 25 of the rules of this Court, which reads in Section 3 as follows:

"In cases of reversal of any judgment or decree in this Court, costs shall be allowed the appellant, including the cost of the transcript from the record below, unless otherwise ordered by the Court."

The charge that the trial court erred in following this Court's mandate, obviously has no support in law because the lower court has no alternative but to follow the mandate of the Court of Appeals.

The Court of Appeals of the Second Circuit in *Broffe v. Horton*, 173 F. 2d 565, had before it a petition for amendment of mandate of the Court of Appeals to make the costs of appeal abide the event of the action. The Per Curiam decision of Judges L. Hand, Chase, and Frank is

quite pertinent to Defendants' attempt to have the costs on the first appeal abide the event:

> "The rules of the Supreme Court have provided for more than a hundred years that in case of reversal, costs shall be allowed 'unless otherwise ordered by the court.' That is now embodied in Rule 32(3) of the rules of that court, 28 U.S.C.A.; and our own Rule 30(2) is even stronger: 'costs, so far as taxable, shall be allowed *as of course* to the prevailing party unless the course (sic) otherwise directs'. No doubt that allows exceptions, but from the beginning in 1891 it has been the unbroken practice at least in this circuit, so far as we know, or can learn from the clerk's office, never to allow 'costs to abide the event' in case of reversal; and we gather that that is the rule elsewhere. The only exception we can find is United States v. Beaty in which in 1847 Justice Daniel and Johnson, D. J., awarded 'costs (to) abide the event,' because 'it was the error of the court' which had rendered a new trial necessary.
>
> 'We regard our local practice as an almost conclusive gloss upon the rule; * "

In the Fifth Circuit, in *Seeley, et al., v. Hunt, et al.*, 109 F. 2d 595, after an appeal the costs were divided, including a division of the cost of the transcript of the first appeal. The Court speaking through Judge Hutcheson, stated at Page 597:

> "In the decree the court taxed the sum of $75.30 as costs of the former appeal against the respondents and further decreed that all other costs be taxed one half against the complainants and one half against the respondents. This will not do. It was error for the reason that the complainants were taxed with one half the cost of the transcript of record on the former appeal. In the mandate the respondents, appellees, were con-

> demned to pay the costs of the appeal. Moreover, our Rule 31(3) provides, 'In cases of reversal of any judgment or decree in this court, costs shall be allowed to the appellant unless otherwise ordered by the court. The cost of the transcript of the record from the court below shall be taxable in that court as costs in the case'. The respondents were liable for all costs of the appeal and these costs included the cost of the transcript of record. *City of Orlando v. Murphy*, 5 Cir., 94 F. 2d 426."

In the decision of *City of Orlando v. Murphy*, C.A. 5, 94 F. 2d 426, the case was quite similar to that at bar in that the mandate ordered further proceedings not inconsistent with the Court's opinion. At Page 432 of the report, Judge Hutcheson pointed out that the plaintiff, prevailing in part after the first appeal, was entitled by statute to all of the costs in the court below inasmuch as it was a case at law. However, the court then continued as follows:

> "But the costs of suit the statute gives are those accruing in the District Court. Such as accrue by reason of an appeal are not included. These are costs of appeal. They follow the judgment on appeal. On the former appeal to this court the City of Orlando obtained a reversal with a mandate ordering 'that the appellee, W. T. Murphy, be condemned to pay the costs of this cause in this court, for which execution may be issued out of the District Court'. * * * This then is the practice; the costs of appeal to this court are imposed by order of this court, those due or already paid to or through its officers are here taxed and included in the mandate, the cost of the transcript and any other properly taxable appeal costs are to be ascertained and 'taxed' in the District Court on the coming down of the mandate."

Other pertinent cases supporting the award of costs upon the first appeal to Plaintiffs, are:

Jennings, et al. v. Burton, 177 F. 603;
Troxell v. Delaware, L. & W. R. Co. (District Court, E.D. Pennsylvania, 1913), 205 F. 830, 832;
Land Oberoesterreich v. Gude, et al., C.A. 2 (1937), 93 F. 2d 292.

Conclusion

It is submitted that the trial Court properly denied the Defendants' counterclaim because of lack of proof of an injury to Defendants' business or property as the *certain* result of Plaintiffs' alleged violation of the antitrust laws. Proof of such injury is required by statute which is the basis of such a suit and the fact of damage must not be speculative or conjectural.

Plaintiffs' and Defendants' businesses being located in Shreveport, Louisiana, and San Gabriel, California, respectively, it would take clear, cogent and convincing evidence on the part of Defendants to prove such damage. Obviously there is not clear error on the part of the trial Court in dismissing the counterclaim.

As to the matter of cost the District Court had no alternative but to follow the mandate of the Court of Appeals.

Respectfully submitted,

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